

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 AGRE-00 OIC-02 IO-13 COME-00

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 5403

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EO 11652: NA

TAGS: EPAP, ETRD, ISO, IN

SUBJ: INDIAN VIEWS ON PROSPECTS FOR SUGAR CONFERENCE

1. EMBOFF MET WITH D. SRIDHARAN, HEAD OF MINAGRICULTURE DIRECTORATE OF SUGAR, TO OBTAIN HIS VIEWS ON RESULTS OF LONDON SUGAR CONSULTATIONS AND PROSPECTS FOR RESUMED SUGAR CONFERENCE NEXT MONTH. EMBOFF ALSO INFORMED SRIDHARAN OF CONGRESSIONAL ACTION ON SUGAR AND RELATED ADMINISTRATION VIEWS (STATE 184710). AS HE HAD AT MEETING LAST MONTH BEFORE CONSULTATIONS, SRIDHARAN TOOK THE OCCASION TO ARGUE IN ELABORATE DETAIL GOI'S POSITION ON THE ISSUES REMAINING IN REACHING SUGAR AGREEMENT, AND TO ASK POINTED QUESTIONS ON US POSITION AT THIS STAGE OF NEGOTIATIONS.

2. SRIDHARAN'S PRINCIPAL CONCERN WAS NATURE OF DISBURSEMENTS FROM STABILIZATION FUND; GRANTS VS. INTEREST-FREE LOANS. NUB OF SRIDHARAN'S ARGUMENT IN FAVOR OF GRANT DISBURSEMENTS WAS THAT SALE OF STORED SUGAR WHEN PRICE REACHED UPPER BAND WOULD BARELY COMPENSATE EXPORTERS FOR ACQUISITION AND STORAGE COST. HE SAID THAT IN EVENT OF LOW WORLD PRICE, GOI WOULD

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ACQUIRE SUGAR FOR STORAGE AT PRICE COVERING DOMESTIC COST OF PRODUCTION, WHICH HE PUT AT 13 CENTS. ASSUMING IT TOOK THREE YEARS FOR WORLD PRICE TO MOVE BACK UP INTO UPPER HALF OF PRICE RANGE, GOI WOULD HAVE TO REPAY STABILIZATION FUND 4.7 CENTS PER POUND FOR CARRYING COST LOANS ACCUMULATED OVER THREE YEARS. ENTIRE OPERATION THUS PRODUCED NO NET FINANCIAL BENEFIT

FOR EXPORTERS, HE ASSERTED.

3. SRIDHARAN ALSO EXPOUNDED ARGUMENTS TO SHOW THAT EXPORTERS BORE THE BURDEN OF STABILIZATION FEE, RATHER THAN CONSUMERS. EMBOFF NOTED THAT SOME ECONOMISTS ARGUED TO THE CONTRARY, AND THAT HE UNDERSTOOD LENGTHY DISCUSSION ON THIS SUBJECT IN LONDON HAD BEEN INCONCLUSIVE (LONDON 12384). HE ASKED WHY EXPORTERS WOULD PREFER A SYSTEM WHICH REQUIRED STABILIZATION FUND TO BE BUILT UP AGAIN WITH EACH PRICE CYCLE (I.E. GRANT DISBURSEMENTS) IF INCIDENCE OF FEE FELL ON EXPORTERS. IN VAGUE REPLY, SRIDHARAN SAID IT WAS GOI'S HOPE THAT IMPORTERS WOULD CONTRIBUTE FEE TO FUND IN SUCH A WAY AS NOT TO AFFECT TRANSACTION PRICE AT COMMERCIAL LEVEL (PRESUMABLY FROM GENERAL REVENUES).

4. SRIDHARAN'S COMMENTS BOTH ON THE LONDON CONSULTATIONS AND ON PROSPECTS FOR GENEVA WERE UPBEAT. HE SAID EXPORTERS HAD MORE REASON TO BE HAPPY WITH LONDON RESULTS THAN IMPORTERS. REFERRING TO EXPORTERS' CONCESSION OF 2.5 MILLION STOCKING LEVEL, HE INDICATED HE WAS CONFIDENT FINAL AGREEMENT COULD BE NEGOTIATED IN SEPTEMBER.

5. LOOKING TOWARDS GENEVA, SRIDHARAN SAID DISAGREEMENT OVER NATURE OF FUND DISBURSEMENTS CONTINUED TO BE LIMITED OFFICIAL USE

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MAJOR TROUBLE SPOT. HE ASKED TO BE INFORMED OF ANY US PROPOSALS FOR BREACHING THIS GAP. NOTING HOW FAR US HAD COME WITH ITS PROPOSAL FOR FINANCING NATIONAL STOCKS THROUGH INTEREST FREE LOANS, HE ALSO ASKED FOR CURRENT OFFICIAL STATEMENT OF REASONS FOR US OPPOSITION TO INTERNATIONAL STOCKING OF SUGAR (SRIDHARAN INSISTED ON POSING THE QUESTION OVER EMBOFF'S OBJECTIONS THAT NEGOTIATIONS HAD NOW GONE TOO FAR AND TOO WELL TO CONSIDER ALTERING NATURE OF STOCKS IN THIS WAY).

6. ACTION REQUESTED: EMBASSY WOULD APPRECIATE BRIEF STATEMENT OF US VIEWS ON INTERNATIONAL STOCKING TO MEET SRIDHARAN'S REQUEST. WE WOULD ALSO WELCOME ANY GUIDANCE ON DEPARTMENT'S APPROACH TO RESUMED CONFERENCE AS OPENING DATE APPROACHES, ALTHOUGH WE KNOW OF NO NEED FOR SPECIAL BILATERAL DISCUSSION WITH GOI.

7. EMBASSY WOULD ALSO APPRECIATE DEPARTMENT'S POUCHING COPY OF TEXT OF US ITC DECISION ON SUGAR CASE WHICH SRIDHARAN SAYS HE HAS BEEN UNABLE TO OBTAIN THROUGH GOI CHANNELS.

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